

CHILDREN'S SERVICE SOCIETY OF UTAH
FINANCIAL STATEMENTS

June 30, 2006

**With Comparative Totals as of and for the
year ended June 30, 2005**

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WISAN, SMITH, RACKER & PRESCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

**Board of Directors
Children's Service Society of Utah
Salt Lake City, Utah**

We have audited the accompanying statement of financial position of the Children's Service Society of Utah (a nonprofit organization) as of June 30, 2006, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Society's 2005 financial statements, which were audited by other auditors whose opinion dated February 10, 2006, on those statements was unqualified.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Children's Service Society of Utah as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2006, on our consideration of the Children's Service Society of Utah's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statement of the Children's Service Society of Utah taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Wisan Smith Racker & Prescott, LLP

**Salt Lake City, Utah
October 20, 2006**

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CHILDREN'S SERVICE SOCIETY OF UTAH
STATEMENTS OF FINANCIAL POSITION
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 173,592	\$ 260,641
Short-term investments	<u>506,089</u>	<u>554,367</u>
	679,681	815,008
Receivables:		
Accounts receivable	127,780	140,145
Other receivables	<u>6,184</u>	<u>7,047</u>
Net receivables	133,964	147,192
Prepaid expenses	21,307	35,533
Inventory	12,877	19,315
Lending library	<u>25,220</u>	<u>28,398</u>
TOTAL CURRENT ASSETS	873,049	1,045,446
PROPERTY AND EQUIPMENT	<u>107,584</u>	<u>125,733</u>
TOTAL ASSETS	<u>\$ 980,633</u>	<u>\$ 1,171,179</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 32,756	\$ 45,892
Accrued salaries and benefits	76,133	67,528
Other current liabilities	15,912	21,060
Current portion of obligation under capital lease	<u>7,516</u>	<u>6,893</u>
TOTAL CURRENT LIABILITIES	132,317	141,373
OBLIGATION UNDER CAPITAL LEASE	19,487	27,003
NET ASSETS		
Unrestricted		
Designated - occupancy	400,000	400,000
Undesignated	245,174	404,148
Temporarily restricted	-	15,000
Permanently restricted	<u>183,655</u>	<u>183,655</u>
TOTAL NET ASSETS	<u>828,829</u>	<u>1,002,803</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 980,633</u>	<u>\$ 1,171,179</u>

The accompanying notes are an integral part of the financial statements.

CHILDREN'S SERVICE SOCIETY OF UTAH
STATEMENT OF ACTIVITIES
Year ended June 30, 2006
With Comparative Totals for the year ended June 30, 2005

	2006				2005	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total	
REVENUES AND SUPPORT						
Government contracts	\$ 1,043,225	\$ -	\$ -	\$ 1,043,225	\$ 964,942	
Grants	-	98,067	-	98,067	68,638	
Contributions	81,673	75,707	-	157,380	145,636	
Investment income	61,746	-	-	61,746	51,379	
Other income	9,811	-	-	9,811	(683)	
Program service fees	502,426	-	-	502,426	530,096	
Net assets released from restrictions	188,774	(188,774)	-	-	-	
TOTAL REVENUES AND SUPPORT	1,887,655	(15,000)	-	1,872,655	1,760,008	
EXPENSES						
Program services:						
Birthparent and adoption services	515,091	-	-	515,091	441,070	
Child care resource and referral	919,180	-	-	919,180	918,092	
Kinship/parenting	350,569	-	-	350,569	286,298	
Supporting services:						
Fundraising activities	47,125	-	-	47,125	1,681	
Management and general	214,664	-	-	214,664	208,942	
TOTAL EXPENSES	2,046,629	-	-	2,046,629	1,856,083	
CHANGE IN NET ASSETS	(158,974)	(15,000)	-	(173,974)	(96,075)	
Net assets at beginning of year	804,148	15,000	183,655	1,002,803	1,098,878	
Net assets at end of year	\$ 645,174	\$ -	\$ 183,655	\$ 828,829	\$ 1,002,803	

CHILDREN'S SERVICE SOCIETY OF UTAH
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2006
With Comparative Totals for the year ended June 30, 2005

	Program Services			Support Services		2006 Total	2005 Total
	Birthparent and Adoption Services	Child Care Resource and Referral	Kinship/ Parenting	Fundraising	Management and General		
UNRESTRICTED EXPENSES							
Salaries and wages	\$ 202,088	\$ 507,723	\$ 194,893	\$ 30,132	\$ 61,357	\$ 996,193	\$ 869,629
Employee benefits	17,029	59,638	24,688	6,142	4,651	112,148	103,199
Payroll taxes	16,854	42,293	16,254	2,340	5,989	83,730	76,139
Direct fundraising costs	-	-	-	-	-	-	1,681
Professional fees	15,226	-	8,039	-	8,184	31,449	10,598
Office supplies	11,645	15,191	7,508	2,616	16,500	53,460	58,301
Telephone	7,512	19,956	4,530	296	1,670	33,964	25,124
Occupancy	9,488	26,218	27,190	1,222	46,940	111,058	83,846
Printing and publications	2,536	14,232	1,139	2,682	2,196	22,785	22,740
Travel	3,341	5,585	1,381	-	28	10,335	7,591
Advertising	125,581	27,195	10,601	-	1,266	164,643	137,861
Interest expense	7	-	-	-	4,086	4,093	3,243
Depreciation and amortization	2,351	9,038	2,396	425	26,274	40,484	32,618
Bad debt and grant allocation	3,865	-	30,290	-	105	34,260	14,523
Program costs	83,716	168,973	8,791	-	6,274	267,754	317,982
Dues and subscriptions	723	5,595	745	1,131	3,583	11,777	5,680
Loss on disposal of equipment	-	-	-	-	3,994	3,994	9,821
Repairs	5,365	11,459	2,440	-	3,639	22,903	19,845
Training and education	2,350	6,084	5,647	139	778	14,998	23,938
Staff support	795	-	151	-	883	1,829	11,267
Insurance	4,619	-	3,886	-	16,267	24,772	20,457
TOTAL FUNCTIONAL EXPENSES	\$ 515,091	\$ 919,180	\$ 350,569	\$ 47,125	\$ 214,664	\$ 2,046,629	\$ 1,856,083

CHILDREN'S SERVICE SOCIETY OF UTAH
STATEMENTS OF CASH FLOWS
Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (173,974)	\$ (96,075)
Adjustments to reconcile change in net assets to net cash flows from (used by) operating activities:		
Depreciation	40,484	32,618
Bad debts (recovered)	34,260	(3,959)
Loss on sale of assets	3,994	9,821
Realized and unrealized market appreciation on sales of short-term investments	(42,498)	(37,379)
(Increase) decrease in assets:		
Accounts receivable	(21,895)	134,525
Other receivables	863	2,545
Inventory	9,616	(5,555)
Prepaid expenses	14,226	(2,661)
Increase (decrease) in liabilities:		
Accounts payable	(13,136)	9,526
Accrued salaries and benefits	8,605	(20,254)
Other current liabilities	(5,148)	21,060
Net cash flows from (used by) operating activities	(144,603)	44,212
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for purchases of equipment	(26,329)	(60,244)
Cash from sales of short-term investments	184,323	11,460
Cash paid for purchases of short-term investments	(93,547)	(25,341)
Net cash flows from (used by) investing activities	64,447	(74,125)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash paid to reduce obligation under capital lease	(6,893)	(6,323)
Net cash used by financing activities	(6,893)	(6,323)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(87,049)	(36,236)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	260,641	296,877
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 173,592</u>	<u>\$ 260,641</u>

The accompanying notes are an integral part of the financial statements.

CHILDREN'S SERVICE SOCIETY OF UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The Children's Service Society of Utah's accounting policies conform to accounting principles generally accepted in the United States of America. The following policies are considered to be significant:

Description of Organization and Nature of Activities

The Children's Service Society of Utah (the Society), founded in 1884, is organized as a nonprofit corporation under the laws of the State of Utah. The mission of the Society is to provide services which meet the developmental needs of children, foster quality childcare, and promote positive relationships in biological and adoptive families. Open Heart Adoption services are provided for infant and special needs children. Pregnancy counseling is provided for prospective parents. Therapeutic counseling is provided in the Heartworks Counseling Center for families in kinship parenting situations and for others who struggle with loss and grief issues. The Grandfamilies program provides support, information, and advocacy for kinship caregivers and the affected children. The Child Care Resource and Referral (CCR&R - Metro) program is a resource for parents in need of childcare services, and educates the parents on how to evaluate a quality childcare setting. Recruitment and technical assistance training for childcare providers is available through this program. These services are provided primarily to residents along the Wasatch Front of Northern Utah, with the exception of pregnancy counseling and adoption services which are now nationwide. The Society is supported primarily through government awards, grants, contributions, program fees, and by the United Way. Government contracts comprise approximately 56% of total support.

Recognition of Revenues and Support

Contributions are recognized when the donor makes a promise to give to the organization that is, in substance, unconditional. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributed Services

During the years ended June 30, 2006 and 2005, the value of contributed services meeting the requirements under SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, for recognition in the financial statements was not material. Many individuals volunteer their time and perform a variety of tasks that assist the Society, but these services do not meet the criteria for recognition as contributed services.

CHILDREN'S SERVICE SOCIETY OF UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation

The Society is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents

Cash equivalents are generally comprised of certain highly liquid investments with original maturities of less than three months.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The Society had \$10,138 as its allowance for doubtful accounts at both June 30, 2006 and 2005.

Short-Term Investments

Short-term investments in marketable securities are reported at market value in the statements of financial position. Net realized and unrealized gains and losses are included in the statement of activities as a change in net assets.

Inventory

Inventory is stated at the lower of cost or market using the first-in, first-out method of accounting. The inventory consists of program supplies.

Property and Equipment

It is the Society's policy to capitalize property and equipment over \$1,000. Lesser amounts are expensed.

Purchased property and equipment are capitalized at cost. Donations of property and equipment are recorded at their estimated fair value; such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Normal maintenance and repairs are charged to expense as incurred. The cost and accumulated depreciation of property sold or otherwise disposed of are removed from the accounts and the resulting gain or loss is recognized.

Property and equipment are being depreciated over their estimated useful lives using the straight-line method.

CHILDREN'S SERVICE SOCIETY OF UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts. Accordingly, actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing treatment and supporting services have been summarized on a functional basis in the statements of activities and functional expenses. Direct expenses are charged to their respective programs or services. Indirect expenses have been allocated among the programs and supporting services benefited, based on management policy.

Advertising and Promotion

Advertising costs, except for costs associated with direct-response advertising, are expensed in the year incurred. The costs of direct-response advertising, when they occur, are capitalized and amortized over the period during which future benefits are expected to be received. At June 30, 2006 and 2005 there were no costs capitalized for direct-response advertising. The amount paid for advertising for the years ended June 30, 2006 and 2005 was \$161,643 and \$137,861, respectively.

Income Taxes

The Society is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Reclassifications

Certain reclassifications have been made to the June 30, 2005 financial statements in order to conform to the June 30, 2006 financial statement presentation.

CHILDREN'S SERVICE SOCIETY OF UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2006 and 2005 are detailed as follows:

	<u>2006</u>	<u>2005</u>
Cost:		
Furniture and fixtures	\$ 102,857	\$ 97,028
Leasehold improvements	46,098	38,218
Equipment	160,923	160,547
Equipment under capital lease	40,219	40,219
	<u>350,097</u>	<u>336,012</u>
Less accumulated depreciation	<u>(242,513)</u>	<u>(210,279)</u>
Net book value	<u>\$ 107,584</u>	<u>\$ 125,733</u>

Depreciation expense for 2006 totaled \$40,484 (\$32,618 in 2005), including amortization of assets recorded under capital leases. Amortization expense for assets under capital leases is computed on a straight-line basis over the shorter of the lease term or life of the asset. Accumulated amortization for assets recorded under capital leases was \$16,758 and \$8,714 at June 30, 2006 and 2005, respectively.

NOTE 3 - SHORT-TERM INVESTMENTS

The estimated fair value and cost of the Society's investments, none of which are held for trading purposes, are as follows at June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Mutual funds:		
Fair value	\$ 506,089	\$ 554,367
Cost	\$ 458,414	\$ 432,482

Investment income for the years ending June 30, 2006 and 2005 consisted of the following:

	<u>2006</u>	<u>2005</u>
Interest and dividends	\$ 19,780	\$ 15,331
Realized and unrealized market appreciation	42,498	37,379
Investment fees	<u>(532)</u>	<u>(1,331)</u>
	<u>\$ 61,746</u>	<u>\$ 51,379</u>

CHILDREN'S SERVICE SOCIETY OF UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 4 - ACCOUNTS PAYABLE

The Society's accounts payable as of June 30, 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>
Trade accounts payable	\$ 15,287	\$ 25,987
Credit cards payable	13,021	19,745
Employee payables (expense reimbursements)	<u>4,448</u>	<u>160</u>
	<u>\$ 32,756</u>	<u>\$ 45,892</u>

NOTE 5 - OPERATING LEASE

The Society leases multiple spaces under one lease. The original lease, dated April 1995, was extended for an additional five years commencing on the first day of June 2002. In 2003 and 2004, the Society amended its lease to include additional space on its current lease and extended the lease agreement until December 31, 2011. Either party may terminate the lease agreement or continue the lease on a month-to-month basis effective December 31, 2008 with six months' advance notice. Occupancy expense under this lease was \$111,058 and \$83,846 for the years ended June 30, 2006 and 2005, respectively.

Future minimum noncancelable lease payments under the operating lease as of June 30, 2006, are as follows:

2007	\$ 106,493
2008	109,676
2009	<u>55,655</u>
	<u>\$ 271,824</u>

NOTE 6 - CAPITAL LEASE

The Society is the lessee of a copier under a capital lease expiring in October 2010, at an imputed interest rate of 8.68%. The liability under the capital lease is recorded at the present value of the minimum lease payments. The asset is being amortized over its estimated productive life. Amortization of the asset under capital lease is included in depreciation expense for the years ended June 30, 2006 and 2005. At the end of the lease, the Society can purchase the equipment for fair market value, renew the lease, return the equipment, or have an opportunity to upgrade the equipment.

CHILDREN'S SERVICE SOCIETY OF UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 6 - CAPITAL LEASE (CONTINUED)

Future minimum lease payments under the capital lease as of June 30, 2006, are as follows:

2007	\$ 9,565
2008	9,565
2009	9,565
2010	<u>2,391</u>
Total minimum lease payments	31,086
Less amount representing interest	<u>(4,083)</u>
Present value of minimum lease payments (including \$7,516 classified as current)	<u>\$ 27,003</u>

NOTE 7 - ENDOWMENT FUNDS AND OTHER PERMANENTLY RESTRICTED NET ASSETS

The Society has received funds from donors that have required the principal to be maintained in perpetuity. The Kappa Kappa Gamma Fund is restricted for the care of physically disabled children. The Educational Fund has been designated to fund education for agency clients.

The Oscar Friendly Fund was created with the interest restricted to "special purposes" to be determined by the Board. Investment income for all endowment funds is available for operating expenses since the Oscar Friendly Fund income has been designated by the Board for unrestricted purposes. The principal balances at June 30, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Kappa Kappa Gamma Fund	\$ 2,123	\$ 2,123
Educational Fund	5,100	5,100
Oscar Friendly Fund	65,228	65,228
Other	3,500	3,500
Generally restricted assets	<u>107,704</u>	<u>107,704</u>
	<u>\$ 183,655</u>	<u>\$ 183,655</u>

CHILDREN'S SERVICE SOCIETY OF UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 8 - PENSION PLAN

Effective July 1, 2004, the Society established a 403(b) Thrift Plan (the Plan). All employees who work more than 20 hours per week are eligible to participate in the Plan. The Plan has no minimum age or service requirements. Participants can contribute any percentage of their salary up to \$15,000 and \$14,000 in 2006 and 2005, respectively.

All participants are eligible to receive employer base contributions, except for certain exclusions as outlined under the Plan. Employer base contributions are 2% to 6% of employee compensation, based upon years of service. Total pension expense for the years ended June 30, 2006 and 2005 was \$38,185 and \$35,326, respectively. Participants are 100% vested in their personal contributions with vesting periods for employer base contributions to participant accounts as follows:

Less than one year	0%
One year of service	40%
Two years	60%
Three years	80%
Four or more years	100%

NOTE 9 - SUPPLEMENTAL CASH FLOW INFORMATION

The Society paid \$2,943 in cash during fiscal year 2006 for interest (\$3,243 in 2005). The Society also recorded donated supplies and services in the amount of \$65,358 and \$48,693 for the years ended June 30, 2006 and 2005, respectively. Included in these amounts are the usage of various facilities estimated to be \$55,850 and \$30,870 for the years ended June 30, 2006 and 2005, respectively. The society has been granted the use of these facilities free of charge for childcare provider training.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The Society is exposed to various asserted and unasserted potential claims in the normal course of business. In the opinion of management, the resolution of these matters, if any, will not have a material effect on the Society's financial position or its activities.

CHILDREN'S SERVICE SOCIETY OF UTAH
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 11 - CONCENTRATIONS

Financial instruments that expose the Society to concentrations of credit risk include cash deposits held at financial institutions and accounts receivable.

The Society maintains its cash balances at a financial institution. At times such balances may exceed federally insured limits. The Society has not experienced any losses in such accounts. The Society believes it is not exposed to any significant credit risk on cash.

The Society derives approximately 47% of its total revenues and support from a single contract funded by federal funding. This single contract also comprises approximately 48% of accounts receivable at June 30, 2006. This contract is up for bid as of the end of fiscal year 2010. Loss of this source of revenue would have a severe impact on the Society's operations.

NOTE 12 - SUBSEQUENT EVENTS

The Society amended its current equipment lease to include additional office equipment in July 2006. The agreement requires the Society to make monthly lease payments of \$1,422, through October 20, 2011.

WISAN, SMITH, RACKER & PRESCOTT, LLP
C E R T I F I E D P U B L I C A C C O U N T A N T S

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**Board of Directors
Children's Service Society of Utah
Salt Lake City, Utah**

We have audited the financial statements of the Children's Service Society of Utah (a nonprofit organization) as of and for the year ended June 30, 2006, and have issued our report thereon dated October 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Children's Service Society of Utah's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Society's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying letter of management recommendations.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Children's Service Society of Utah's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Children's Service Society of Utah in a separate letter dated October 20, 2006.

This report is intended solely for the information and use of the finance committee, management, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wileen Smith Racker #Prescott, UP

Salt Lake City, Utah
October 20, 2006

WISAN, SMITH, RACKER & PRESCOTT, LLP
C E R T I F I E D P U B L I C A C C O U N T A N T S

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

**Board of Directors
Children's Service Society of Utah**

Compliance

We have audited the compliance of Children's Service Society of Utah (The Society), with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. The Society's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of The Society's management. Our responsibility is to express an opinion on The Society's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Society's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of The Society's compliance with those requirements.

In our opinion, Children's Service Society of Utah complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Children's Service Society of Utah is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered The Society's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management, Utah State Auditor's Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wisan Smith Rader & Prescott, LLP

Salt Lake City, Utah
October 20, 2006

CHILDREN'S SERVICE SOCIETY OF UTAH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2006

Federal Grantor Agency or PassThrough Entity	Federal CFDA Number	Grant Number	2006 Expenditures
U.S. Department of Health and Human Services <i>Pass Through Utah Department of Workforce Services, Utah Office of Child Care Services - Child Care and Development Block Grant (CCR&R Program)</i>	93.575	056071	\$ 876,916 *
U.S. Department of Health and Human Services <i>Pass Through Lutheran Social Services of South Dakota Infant Adoption Awareness Training</i>	93.254	n/a	54,127
U.S. Department of Health and Human Services <i>Passed Through Salt Lake County - Block Grant for Prevention and Treatment of Substance Abuse (Grandfamilies program)</i>	93.959	AL-04512C	19,425
U.S. Department of Health and Human Services <i>Passed Through Utah Department of Human Services - Promoting Safe and Stable Families grant and Community-Based Child Abuse Prevention grants (Grandfamilies program)</i>	93.556 93.590	060680	47,000
U.S. Department of Justice <i>Passed Through Utah Commission on Criminal and Juvenile Justice (Grandfamilies program)</i>	16.540	5Z22	35,467
Total			<u>\$ 1,032,935</u>

*Denotes Major Programs

CHILDREN'S SERVICE SOCIETY OF UTAH
NOTES TO THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
Year ended June 30, 2006

1. **General -** The Schedule of Expenditures of Federal Awards presents the activity of all federal awards of Children's Service Society of Utah, including those passed through other non-profit and governmental agencies.
2. **Basis of Accounting -** The Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CHILDREN'S SERVICE SOCIETY OF UTAH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2006

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements.
2. Reportable conditions relating to the audit of the financial statements are reported in the letter of management recommendations.
3. No instances of noncompliance considered to be material to the financial statements were disclosed by the audit.
4. No reportable conditions relating to the audit of the major federal award programs are required to be reported.
5. The auditor's report on compliance with requirements applicable to major federal award programs expresses an unqualified opinion.
6. The audit disclosed no findings that are required to be reported in accordance with OMB Circular A-133.
7. The programs tested as major programs include:

	<u>CFDA Number</u>
Child Care and Development Block Grant	93.575
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. CSSU did not qualify as a low-risk auditee.

FINDINGS—FINANCIAL STATEMENTS AUDIT

None

**FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

None

CHILD CARE AND DEVELOPMENT BLOCK GRANT

Finding 05-01: Allowable Costs/Cost Principles

Condition: Documentation does not provide allocation calculations or adequate information to demonstrate that a portion or all of a cost is related to or was incurred for the contract program. Documentation not provided to support or demonstrate the costs claimed have been incurred or allocated properly. Costs charged to the contract program have not been provided in the contract budget and are excessive and/or unreasonable. Costs charged to the contract program have been incorrectly charged to the program. Reported costs are not in accordance with federal cost principles applicable to non-profit organizations. Program registration fees not yet applied to contract. Sales tax charged to the program.

Recommendation: Documentation and justification should be provided and costs should be reasonable and allowable.

Current status: The recommendation was adopted in February 2006. No similar findings were noted in the 2006 audit.

Finding 05-02: Allowable Costs/Cost Principles

Condition: An appropriate allocation base was not used for particular costs directly charged to the contract program.

Recommendation: Costs shall be reallocated using an appropriate basis that distributes the cost according to the benefit received by the contract program and use a base most appropriate to the cost being prorated. Policies and procedures to be established which clearly outline which costs will be included as direct costs.

Current status: The recommendation was adopted in February 2006, and retroactively for the fiscal year; accomplished with assistance from agency officials during the Utah Department of Workforce Service's observation and audit. No similar findings were noted in the 2006 audit.

Finding 05-03: Allowable Costs/Cost Principles

Condition: Costs charged to the contract program included expenditures for the acquisition of capital assets or expenditures to make improvements to capital assets.

Recommendation: A depreciation charge or use allowance should be used for capital assets.

Current status: The recommendation was adopted in February 2006, and retroactively for the fiscal year. No similar findings were noted in the 2006 audit.

WISAN, SMITH, RACKER & PRESCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

October 20, 2006

**Board of Directors
Children's Service Society of Utah**

In planning and performing our audit of the financial statements of Children's Service Society of Utah (the Society) for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of our report on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Society's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in any internal control, errors or irregularities may occur and not be detected by such control.

During our audit, we noted certain reportable conditions, as well as other comments and observations, which are set forth on the following pages.

We would like to offer suggestions that represent opportunities for strengthening the Society's internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

We thank Chris Bray and Mike Canada for their considerable help in completing this year's audit and offer our deep appreciation to the Board of Directors for the opportunity to serve Children's Service Society of Utah. All of these comments have been discussed with the Society's personnel. If any questions should arise, or if you would like our assistance in the implementation of these comments, we would be pleased to discuss them with you at your convenience.

This report is intended solely for the information and use of the Board of Trustees, management, and others within the Society.

Wisan, Smith, Racker & Prescott, LLP
Wisan, Smith, Racker & Prescott, LLP

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REPORTABLE CONDITIONS

Segregation of Duties in the Accounting Department

It was noted during the audit that additional improvements should be made in the area of segregation of duties. An effective system of internal accounting control should include segregation of duties among employees so that a system of checks and balances is established. We understand it is difficult to segregate duties when limited by staff size. However, management should be aware that when a limited number of people control the accounting function, the system is far more susceptible to errors or irregularities not being discovered. We recommend:

- Bank reconciliations be performed by personnel independent of cash receipt and disbursement functions.
- Personnel in payables be independent of purchasing, receiving, disbursing, inventory, and general ledger functions.

Management response: Management will examine all job functions in the next fiscal year and determine personnel that will not have conflicts with receiving cash or preparing disbursements and train identified staff to reconcile the operations accounts. Payables job functions will also be analyzed and changes made to insure that separation of duties is consistent with the identified job function.

Prenumbered Documents

Contribution acknowledgement forms should be prenumbered and the numerical sequence should be accounted for by the development department. Prenumbered receipts should also be used in the Adoption and Clinical departments for customer payments and accounted for by each department. All should be verified by the accounting department to help ensure all payments are deposited and recorded on a timely basis.

The acknowledgement forms which are prepared for contributions and customer payments are not presently prenumbered.

Management response: All systems of invoicing and receiving cash will use documents that are prenumbered. The documents will be controlled and logged. Receipt books will be assigned to specific departments and the numbering recorded in the accountant's office. A copy of the receipt will accompany the funds when they are prepared for deposit, a copy will go with the individual making the purchase and a copy will stay with the receipt book. Acknowledgement forms will be number and the number will be entered into the invoicing system.

Payroll Reconciliation

Reconciliations should be prepared comparing general ledger payroll expenses to information reported in quarterly tax filings. Reconciliations to quarterly tax filings should ensure that all payroll expenses are filed as required and be correctly recorded in the general ledger.

Management response: A system will be developed verify the payroll totals created from the QuickBooks accounting system and the quarterly filings. Management is planning on investigating the use of a payroll service rather than an in-house system; this may reduce employee time, ensure proper payroll reconciliations and eliminate the filing of quarterly reports.

Collection of Outstanding Receivables

At year end, the Society had numerous accounts with long outstanding balances. It appears that no clearly defined collection policy has been established for all departments. Further, formal collection procedures do not exist, and outstanding receivables are not followed-up in a timely manner.

In an effort to "clean up" these old receivables as well as keep current on new ones, we recommend that the Society establish a formal credit and collection policy. In the process of developing the policy, the following should be performed:

- Review all receivables over 90 days old. Those that can be followed-up in house should be. All remaining amounts should be forwarded to a collection agency.
- Assign an individual (or individuals) the responsibility of following-up on all accounts receivable which are current to 90 days. Late notices should be sent out every month, and phone calls should be made once the account has reached 45 days. This should be done on an ongoing basis.

Management response: The suggested system of receivable collections will be implemented immediately. All of the Society's accounts are set up as 'due upon receipt', therefore accounts that become aged will be contacted and a collection process established.

OTHER MATTERS

Accounts Receivable Billings

Individual departments within the Society are responsible for preparing billings to customers. Although the accounting department receives copies of the invoices and reviews them, these amounts are not always recorded timely as receivables on the Society's books, due to the period in which they are received. Also, duplicate entry of billings has occurred in some cases based on documentation provided to the accounting department.

We recommend that billing and communications procedures be established between all departments and accounting staff to ensure that all billings are entered accurately and timely.

Management response: The suggested system of receivable controls will be implemented immediately. Establishing better controls through the invoicing system will eliminate duplicate or erroneous billing.

Perpetual inventory records for the Lending Library and Child Care Provider incentive certificates should be integrated into the general ledger control accounts.

The following procedures should be considered for implementation:

- Updated perpetual inventory reports should be prepared periodically and made available to appropriate persons.
- A periodic and timely reconciliation between balances on the perpetual records and general ledger control account should be performed by the accounting department and significant differences investigated and explained.

These procedures will allow management to more effectively control inventory levels and usage.

Management response: All items purchased that are not immediately used in the program will be entered into a provider inventory. As these items are sold or used as provider materials their inventory should be clearly documented and the disposition of the inventory easily tracked.

A formal investment policy should be developed.

The Board of Directors should develop a formal investment policy, to enhance the use of available cash.

An investment policy consists of a number of elements including:

- Responsibility for investment decisions;
- Degree of risk the organization is willing to accept;
- Long-term growth vs. current income objectives;
- Specific types of investments; and
- Compliance with any legal restrictions imposed by donors.

The Board members' knowledge of investments should be used to ensure otherwise idle funds remain invested in income-producing securities.

Management response: This information will be presented to the board and a formal policy will be established to handle our investments.

In-Kind Donations and Trades

Frequently, the Society receives in-kind donations for the use of facilities free of charge for training classes with various locations. However, these transactions are not always recorded in the general ledger.

So that these transactions can be properly reflected in the financial statements, we recommend that they be communicated to the accounting department in a timely manner. The communication should include a description of the transaction, as well as an estimated dollar amount as to the value of the transaction.

Management response: A system of properly documenting and educating personnel of the transactions that involve in-kind donations will be established. As the facilities are being used, the proper documentation will be prepared and processed through the development department. Thi 1.5

Accounting Policies and Procedures Manual

We noted the Society has an accounting manual which does not include organization-specific policies and procedures. A comprehensive manual is a fundamental component of an effective internal control, accounting and financial reporting system. Lack of formal procedures results in increased risks of errors and loss or misuse of assets, inconsistent treatment of transactions, and lack of comparability of financial information. A comprehensive manual offers employees a clear picture of the Society's controls, accounting procedures and practices, provides the Society with a source of information that will not be lost if key personnel leave, and will be helpful in training new employees. We recommend preparing a manual that defines accounting policies, procedures, and internal controls.

This manual should include:

- Levels of authority for approving transactions;
- Flowcharts and narratives of the accounting system and procedures, including document flow from inception of a transaction to completion;
- Documents and records used in each segment of the accounting system;
- Accounting policies, especially for bad debts, accruals and other areas requiring judgment, and intercompany and related party transactions;
- Description of reports prepared;
- Procedures for using standard journal entries for recurring monthly transactions;
- Chart of accounts, including detailed explanations of account content;
- Investment policies and procedures;
- Physical inventory procedures;
- Productive asset acquisition, retirement and depreciation guidelines (including a dollar limit for capitalization and a method of assigning amounts to donated assets).

We realize that preparing a comprehensive manual is costly and time-consuming. Thus, we recommend developing crucial areas first. As time permits, other areas could be developed. We believe the most crucial areas are:

- Policies for cash receipts and disbursements;
- Policies for sales, billing, accounts receivable and collection;
- Policies for procurement, specifically those that will comply with OMB Circular A-110.

Management response: Management is presently creating written job functions for all functions for all Society personnel. The accounting functions will be implemented into our accounting manual. This will change our manual from general information to an organization-specific accounting identity.

The Society will start integrating our policies into the manual that relate to cash receipts, disbursements, invoicing, collections and purchasing.